COLORADO
Office of Economic Development & International Trade
Business Funding & Incentives

Innovative Housing Incentive Program (IHIP): Proposed program guidelines for initial review

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1. Introduction

a. Background

The Innovative Housing Incentive Program (IHIP), which emerged as a recommendation from the 2021 interim Affordable Housing Transformational Task Force, was introduced to the Colorado General Assembly as HB22-1282 with bipartisan sponsorship in March 2022 and signed into law by Governor Polis in May. The program was designed to help address the state's critical lack of affordable and attainable housing by supporting innovative housing manufacturing businesses across the state through grants, loans, and cash incentives. The program was initiated with $40 million in state funding and no sunset date.

The program includes three funding mechanisms for innovative housing manufacturers: a working capital grant, a per-unit cash-incentive, and a factory loan. The working capital grant will partially reimburse innovative housing businesses' operating expenses. The per-unit cash incentive will reward manufacturers who build affordable and sustainable homes with a cash award for every unit built and installed in Colorado. Finally, the factory loan program will help finance the construction of new innovative housing manufacturing facilities across the state. Each mechanism will be described in greater detail below.

b. Program status and timeline

The program was funded and staffed by the Office of Economic Development & International Trade (OEDIT) in July 2022. As directed by statute, OEDIT is now seeking feedback from the public, industry stakeholders, and state agency partners to ensure that the program runs smoothly and meets stakeholders' needs.

The publication of these draft guidelines on September 29 marks the beginning of a two-week public comment period, ending on October 13.

OEDIT has formed an interagency group consisting of partners from the Department of Local Affairs (DOLA) Division of Housing (DOH), the Colorado Energy Office, the Governor's Office, and the Colorado Housing & Finance Authority (CHFA). That group will use their domain expertise to advise OEDIT as it designs and implements the program.

We expect to begin receiving applications for the working capital grant and per-unit incentive before the end of 2022. We expect to begin receiving applications for the factory loan shortly thereafter, in early 2023. We will continue to update the public on program guidelines and application dates through the IHIP webpage and the IHIP newsletter. A newsletter sign-up form is available on the IHIP webpage.

c. Summary of statute

While the statute lays out the three funding mechanisms introduced above, many of the details regarding how they are implemented has been left for OEDIT to determine with input of agency partners, industry stakeholders, and the public.

Some aspects of the statute that apply to all three funding mechanisms are discussed here, while others that are mechanism-specific are discussed in more detail in each mechanism's respective section of this document.

i. Grant and loan exclusivity

The statute allows eligible innovative housing businesses "to apply for a grant or a loan," which OEDIT has interpreted to mean that the grants and loans are exclusive paths for participation in the program, and that businesses may not use both.

With that in mind, OEDIT is proposing that businesses be allowed to utilize a combination of the working capital grant and the per-unit incentive (both of which are technically grants), or solely a factory loan. If a company receives a grant before pursuing a factory loan, it will be required to repay any awarded grant funds before receiving the loan.

ii. Eligibility

The statute provides some parameters for eligibility, and otherwise allows OEDIT to determine which businesses are considered innovative and eligible for funding. Colorado-based manufacturers with under 500 employees that produce prefabricated, panelized, 3D-printed, tiny, or kit homes are eligible for the incentive. Modular homes are presumed to be included in the prefabricated category. To be eligible, the homes must be built for installation on permanent foundations.

The only other requirements laid out in statute are that the business must employ 500 or fewer employees and must manufacture homes. Additional processes for determining eligibility will be described in the section for each funding mechanism, but the general litmus test for whether a given business is considered innovative is if it uses a technology or process that significantly reduces the amount of on-site time and labor required to build a home.

d. Proposed funding limits

The statute does not dictate how the $40 million should be allocated among the three funding mechanisms, though it does allow OEDIT to spend up to two percent of the overall allocation per year ($800,000) to cover direct and indirect costs of implementing the program.

At this point, OEDIT does not plan to immediately set an overall limit on how much of the $40 million is allocated to each funding mechanism. Instead, it will create lifetime limits per business for each funding mechanism, and will further evaluate allocation limits based on the performance of each mechanism after the first two or three years.

OEDIT currently expects to make the working capital grant and per-unit incentive available for five years, while the loan program may continue to revolve indefinitely.

Funding mechanism	**Lifetime limit per business**
Working capital grant	$130,000 for businesses in non-Just Transition counties $200,000 for businesses in Just Transition counties
Per-unit cash incentive	$800,000 for all eligible businesses
Factory loan	No more than $10 million will be loaned to any business

2. Working capital grant and per-unit incentive guidelines

a. Process

Because businesses will be eligible to utilize both the working capital grant (referred to as “the grant”) and the per-unit incentive (referred to as “the incentive”), OEDIT is proposing to merge the two funding mechanisms into one application process. This will save time for both the participating businesses and OEDIT staff, while still giving the business the ability to opt out of either mechanism if they choose.

Applications for both programs will be accepted on a rolling basis, as described below:

1) Business submits screener survey to determine eligibility. Screener includes description of manufacturing method, mission, progress, and certificate of good standing with the Colorado Secretary of State. A site visit and tour will be conducted by an OEDIT representative and a presentation before an interagency panel will be held before business is approved. If the business is approved, it will be automatically eligible for both the grant and the incentive.

2) If approved, the business fills out a reservation application. Both the grant and the incentive are reimbursement awards for work completed within a contract period, so businesses will forecast their expected operating expenses and units installed in-state to reserve funds over a given period of time (up to three years). Reservation applications will include tax returns, financial statements, and other documentation to be determined.

3) Reimbursements will be processed on a monthly basis. Every month, the business will complete a worksheet detailing their qualified operating expenses. Businesses will be required to submit some form of receipt (including payment method) for each expense. Recurring expenses such as lease payments will not require receipts if a lease contract is provided. For the per-unit incentive, the business will submit building plans, purchase orders/receipts, and Certificates of Occupancy for each unit incentivized.

4) Businesses may continue to utilize the incentive until they reach the lifetime limit per business for their geographic area, or until the three-year contract period ends, whichever occurs first. For some smaller and startup businesses, the three year contract period may be extended.

b. Eligibility and review

To be eligible for the grant and incentive, businesses must first meet all requirements described above. They must also have a facility in Colorado that has produced at least one prototype home.

As mentioned above, each business will be required to present to an interagency panel that will assess whether a business is eligible and whether grant/incentive funds would be used responsibly and impactfully. This panel will consist of members of the DOLA Division of Housing, the Colorado Energy Office, the Governor’s Office, and OEDIT.

New companies that have only produced a prototype may still be eligible, but will be required to have had their business plans reviewed by a local Small Business Development Center and pass a more in-depth interagency panel review.

c. Guidelines for working capital grant

The working capital grant will have a lifetime limit of $130,000 per business, unless the business is located in a Tier 1 Just Transition community.* Participating businesses will have up to three years to reach the lifetime limit.

The grant is a reimbursement of up to 20 percent of an innovative housing business's operating expenses over a given time period. Statute indicates that operating expenses include, but are not limited to, payroll, inventory, and materials. Only operating expenses incurred after the start of the contract period are eligible for reimbursement.

Other categories of expenses that will be considered as operating expenses are rent, utilities, marketing, research & development, and payments toward leased equipment.

Costs that are ineligible for reimbursement include, but are not limited to, startup/capital costs, purchased equipment, food and liquor, costs related to IP (patents, copyrights, trademarks), taxes, and other government fees.

* Tier 1 Just Transition communities: The West End of Montrose County, Moffat County, Rio Blanco County, Routt County, Morgan County, and Pueblo County

d. Guidelines for per-unit incentive

As with the grant, per-unit incentive awards will be reserved and then disbursed on a monthly basis. For each unit incentivized, the innovative housing business must submit receipts or purchase orders, architectural or construction drawings, and a Certificate of Occupancy.

Only units that have not yet begun construction at the start of the contract period are eligible for the per-unit incentive. If a unit has been ordered and paid for but the unit has not begun being assembled, it will still be eligible.

OEDIT is proposing a 100-unit limit per year, with a lifetime award limit of $800,000 per business. OEDIT will retain the option to increase the limit if a given manufacturer exceeds expectations in terms of affordability, sustainability, workforce development, and community impact.

Statute requires OEDIT to incentivize housing units based on affordability and sustainability factors. However, the ultimate cost and efficiency of the unit for the end-user depends largely on the developer, the site on which the home is built, and on the quality of the on-site installation. Because the manufacturers for whom the program was designed have little influence on these factors, and because verifying the cost and sustainability performance of each unit would be unnecessarily onerous, OEDIT's proposed guidelines prioritize elements within the manufacturer's control.

Below is a summary table of per-unit bonuses available for innovative housing businesses, followed by a description of how each category will be managed.

Category	Dollar amount	Requirements for each level
Base	$1000	Must meet one sustainability or affordability criterion

Affordability and attainability	$500 - $1,500	Deed-restricted: $500 = 80-120% AMI $1000 = <80% AMI $1500 = <60% AMI -OR- Per-square foot: $500 = <$125/sf $750 = <$110/sf
Sustainability	$500 - $1,500	$500 = HERS score under 85, OR Energy Star Certification $1000 = HERS score under 50, OR Zero-energy ready, OR LEED Gold $1500 = HERS score under 35, OR Passive House, OR LEED Platinum
Density	$500	$500 for all units built at density
Maximum total	**$4500**	

1. *Affordability and attainability*

Manufacturers can follow one of two exclusive paths – deed-restricted affordability or per-square foot affordability – for verifying the affordability of each unit produced. With the following assumptions, the maximum affordability bonus per unit would be $1500.

If a unit is sold to a housing authority or housing developer and will be rented or sold to the end user with a deed restriction, the innovative housing business can follow the deed-restricted path for the per-unit incentive. This path awards $500 for every deed-restricted unit rented or sold at an attainable level (80-120% area median income), $1000 for every unit rented or sold at an affordable price for under residents at or under under 80% AMI, and $1500 for every unit rented or sold at or under 60% AMI.

Participating businesses may instead choose to follow the per square foot path, which will award $500 per unit sold for under $125 per square foot and $750 per unit sold for under $110 per square foot. Costs per square foot does not include shipping and installation costs.

Proper supporting documentation for either path is required.

2. *Sustainability/Energy Efficiency*

Given the logistical limitations of verifying the on-site energy performance of each home produced, OEDIT will accept past demonstration of a specific model’s sustainability and energy performance in Colorado as evidence of the sustainability capacity of other units of that model produced in the future.

If a unit is custom-designed or if a model has not previously had a unit certified to meet a given standard, then the manufacturer will be required to have the unit rated and certified to receive the per-unit incentive. If local building code exceeds the requirements of a given certification, then OEDIT will assume that it meets the standard.

With the following assumptions, the maximum sustainability bonus would be $1500.

Level 1: $500 per-unit. Manufacturers may choose any of the following means to demonstrate sustainability.

- HERS score under 85, OR
- ENERGY STAR certification (ENERGY STAR certification will be required for manufactured HUD homes)

Level 2: Additional $500 per unit.

- HERS score under 50, OR
- Zero energy ready certification, OR
- LEED Gold

Level 3: Additional $500 per unit.

- HERS score under 35, OR
- Passive House certification, OR
- LEED Platinum

3. *Density*

Given the importance of density for achieving sustainability and affordability goals, an additional $500 will be awarded for each unit that is one of multiple units on a given parcel. Essentially, any installed unit that is not zoned single-family will be eligible for the $500. Parcels that include an residential accessory dwelling unit will be considered eligible for the density bonus.

3. Factory loan guidelines

a. CHFA partnership

The statute allows OEDIT to contract with the Colorado Housing & Finance Authority (CHFA) to administer the factory loan program. Early discussions with CHFA have begun, and while there is no contractual agreement yet, we can begin to share how the factory loan program will operate.

b. Application and review process

Applications for factory loans will be taken in separate tranches. In each tranche, applicants will have the opportunity to propose loan terms for building a new factory or expanding an existing facility. The applicant will propose a loan amount, length, interest rate, forgivability, and the state's priority within the capital stack. Applications will include audited financial statements and other documents required for underwriting.

From there, the loan administrator will meet with OEDIT and a selected interagency group of experts to evaluate the applications. Along with loan terms described above, OEDIT will consider the business's financial health, the number of units the factory will produce, the anticipated percentage of affordable units produced, the number of new jobs created, the level of economic distress in the area where the proposed factory is located, and the sustainability and energy efficiency of the units to be produced, among other factors.

OEDIT and the loan administrator will then negotiate loan terms with one or more applicants. No more than $10 million will go toward any one factory loan.

c. Revolving loans

OEDIT has the authority to revolve loans into the future. As principal and interest is paid, it may be used for future factory loans or to cover other IHIP program costs.

4. Next steps

OEDIT will host a public information session on draft guidelines on Thursday, October 6, and will continue to accept comments and questions from the public until October 13. The October 6 meeting will be recorded and shared via the IHIP webpage. After October 13, OEDIT will continue to work with interagency partners to refine program guidelines. Please subscribe to the IHIP newsletter and check the IHIP webpage for additional updates.